

In the Matter of)	No. G 99-19
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
KITSAP PHYSICIANS SERVICE,)	AND ORDER ADOPTING REPORT
)	OF EXAMINATION
A Domestic health care service contractor.)	

BACKGROUND

An examination of the financial condition of **KITSAP PHYSICIANS SERVICE** (the Company) as of December 31, 1997, was conducted by examiners of the Washington state Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of registration as a health care service contractor. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and recommendations was transmitted to the Company for its comments on January 6, 1999.

The Commissioner or a designee considered the report, the relevant portions of the examiners' work papers, and submissions by the Company. The Commissioner also considered oral presentations by the Company's representatives on January 22, 1999. The Company's response to the report, which was attached to this order number G99-8 only for the purpose of providing convenient review of the response.

On January 22, 1999, the Commissioner entered order number G 99-8 that adopted the examination report as of December 31, 1997. On February 4, 1999, the Company requested a hearing on the Report of Examination and order G 99-8. On April 9, 1999, the parties agreed to resolve the issues raised in the Company's request for hearing.

The Commissioner adopts the following findings, conclusions, and order to adopt the examination report for Kitsap Physicians Service as of December 31, 1997, which has been amended to comply with the terms of the settlement in cause number G 99-8.

The Company's response to the report of examination revised to comply with the settlement agreement identified above, is attached to this order only for the purpose of providing convenient review of the response. The Company's response by attachment, is not adopted or incorporated into this order.

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 2 through 29 of the report.

CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **KITSAP PHYSICIANS SERVICE**, to order the Company to take the actions described in the Instructions section and to order the Company to consider the suggestions for improvement found in the Recommendations section of the report. The instructions and recommendations in the report are appropriate responses to the matters found in the examination, as of December 31, 1997.

ORDER

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, these being the Instructions and Recommendations contained in the examination report on pages 3 through 6:

1. The Company is instructed to deposit additional funds in the Indemnity Account so that the balance of securities in trust with the Office of Insurance Commissioner (OIC) complies with the statutorily required indemnity level required by RCW 48.44.030, as noted in Instruction (1) of the examination report.

2. The Company is instructed to obtain joint written instructions from the Commissioner and Company for all withdrawals of deposits from the Indemnity Account, as outlined by the Depository Agreement, as noted in Instruction (1) of the examination report.
3. The Company is instructed to non-admit the portion of its investments that exceeds the 4% limitation established by RCW 48.13.270(3), until a special consent is issued by the Commissioner, as noted in Instruction (2) of the examination report.
4. The Company is instructed to revised its custodial agreements to include the required provisions for indemnifying the Company for lost securities as promulgated by NAIC guidelines, RCW 48.05.250 and WAC 284-07-050, as noted in Instruction (3) of the examination report.
5. The Company is instructed to place the securities held in the custody of the brokerage firms into the custody of a bank, trust company or a security depository that is regulated by the Securities Exchange Commission and the Federal Reserve Board as promulgated by NAIC guidelines, RCW 48.44.095 and WAC 284-07-050, as noted in Instruction (3) of the examination report.
6. The Company is instructed to exclude premiums delinquent more than ninety (90) days as admitted assets, as required by RCW 48.12.010(5), as noted in Instruction (4) of the examination report.
7. The Company is instructed to exclude furniture, furnishings, fixtures, equipment, stationary and supplies from its reported balance of Electronic data processing equipment as an admitted assets as required by RCW's 48.12.010(11) and 48.12.020(5), as noted in Instruction (5) of the examination report.
8. The Company is instructed to value its investment in Westsound Community Health Network on a Statutory Accounting Principles (SAP) basis, excluding the value of assets that do not constitute lawful investments, as required by Section 5(B)(a)(I) of the NAIC Securities Valuation Office's Instructions and Procedures manual and RCW's 48.12.010(11) and 48.12.020(2), as noted in Instruction (6) of the examination report.
9. The Company is instructed to non-admit employee advances as required by RCW 48.12.020(3), as noted in Instruction (7) of the examination report.

10. The Company is instructed to report all expenses and other obligations as a liability as required by RCW 48.12.030(5) and NAIC Annual Statement Instructions, as noted in Instruction (8) of the examination report.

11. The Company is instructed to keep timely and complete reconciliations of its general ledger accounts and to keep full and adequate accounts and records of its assets, obligations, transactions and affairs, as required by RCW 48.44.100. The accounts and records required by RCW 48.44.100 include any liability for COB Savings generated under the provisions of Chapter 284.51 WAC, as noted in Instruction (9) of the examination report.

12. The Company is instructed to accurately report the unrealized gains on stocks within Annual Statement Schedule D - Part 2 - Section 2 and on the Liabilities, Reserves & Other Funds schedule - Line 18, as noted in Instruction (10) of the examination report.

13. The Company is instructed to equally value the asset valuation of Deferred Compensation Plan - Plan A and the offsetting liability valuation, with no effect to surplus, as noted in Instruction (11) of the examination report.

14. The Company is instructed to report Deferred Compensation Plan - Fund A on Line 14 - 'Aggregate Write-Ins for Liabilities' as a liability, as required by the NAIC Annual Statement Instructions and RCW 48.12.030(6), as noted in Instruction (11) of the examination report.

15. The Company is instructed to report in its financial records the examination adjustments recommended by the examiners and summarized in "Analysis of Examination Changes in Financial Statements" on Page 22 of the report.

16. It is recommended that the Company revise the asset concentration clause of its Investment Policy to comply with the 4% of admitted assets limitation as set forth by RCW 48.13.030, as noted in Recommendation (1) of the examination report.

17. It is recommended that the Company revise the Trust Funds clause of its Investment Policy to indicate that deposits may not be withdrawn and distributed to the Company without joint written instructions from the Commissioner and KPS per the terms of the Depository Agreement, as noted in Recommendation (1) of the examination report.

18. It is recommended that the Company report separately, as required by the NAIC Annual Statement Instructions, receivables and payables relating to uninsured accident and health plans, as noted in Recommendation (2) of the examination report.

19. It is recommended that the Company accurately report the change in Unrealized Gain of Stocks in the Underwriting and Investment Exhibit Part 4A, Column 5 - 'Net Gain or (Loss) From Change in Difference Between Book and Admitted Values for Common Stocks' as required by the NAIC Annual Statement Instructions, as noted in Recommendation (3) of the examination report.

20. It is recommended that KPS draft a written intercompany agreement with Westsound Community Health Network describing services rendered and the reimbursement methodology for those services, as noted in Recommendation (4) of the examination report.

21. It is recommended that the Company write and test for effectiveness a Disaster Recovery Plan for its EDP system that includes appropriate escalation procedures to resolve operational failures in a timely manner, as promulgated by NAIC Guidelines, as noted in Recommendation (5) of the examination report.

22. It is recommended that the Company prepare a Business Contingency Plan that addresses the continuation of all significant business activities, including financial functions, telecommunication services and data processing services, in the event of a disruption of normal business activities, as promulgated by NAIC Guidelines, as noted in Recommendation (6) of the examination report.

ENTERED at Lacey, Washington, this 3rd day of May, 1999.

DEBORAH SENN
Insurance Commissioner

By:

JAMES T. ODIORNE, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division